

I. MARKETING CONDITIONS

Cambridge -- The Cambridge sell-in continues to be somewhat slow. We have, however, closed some significant gaps. For example, Tom Thumb Page, Toot N Totum, and Fleming, Lubbock, accepted both packings, Minyards and E-Z Mart of Tyler have added Cambridge U.L. to their order book.

Rejections to date have been:

Sigel Liquor (Dallas)
Texaco (Tulsa)
Bye N Bye (Tulsa)
Gasoline Marketing (Tulsa)
Kutner Enterprises (Oklahoma City)
Mr. M (Dallas)

Follow-up is in progress.

One area that seems more critical now is that we are in great need of 30 carton all purpose floor displays. During the Cambridge Full Flavor introduction, we sorely needed more displays for our chain accounts. Since the Generic priced cigarettes are mainly a supermarket brand, we needed more 30 carton floor displays to increase visibility.

Overall the sales for Section 52 are showing signs of improvement. The economic conditions in both Oklahoma and Texas are starting to improve. This is due to the increased pricing for oil. We are now starting to see employment increase marginally in West Texas. Our decline in sales are being reduced and currently we are down 7.2% through June. We predict that in July unit sales should grow at a faster pace.

During the Marlboro M.I.S.T. program our Sales Force concentrated on the Marlboro Box packings. As you can see, distribution on all the packings showed significant distribution growth:

	<u>January 1987</u>	<u>June 1987</u>
Marlboro Red Box	94.5	95.5
Marlboro 100 Box	81.7	85
Marlboro Lt. Box	83.3	85.9
Marlboro Lt. 100 Box	79.7	83.1

We have noticed that the Value category has continued to grow in the Section and especially in Oklahoma City. Value Category is 15.71 S.O.M. 1st Qtr. in Oklahoma City (up 1.90 S.O.M. past 12 months) - Value 25's hit 2.65 S.O.M. in 1st Qtr. 1986 in Oklahoma City and dropped 1.19 S.O.M. in 1st Qtr. 1987. This segment is declining steadily.

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Doral Grew 1.94 S.O.M. and Cambridge 1.23 S.O.M. gain. These 2 brands accounted for 94% of the increase in generic priced products in this market. Virtually all popular priced products declined in S.O.M. in this market. With these figures in mind, regional marketing makes a lot of sense in Oklahoma. Cambridge budget and promo's need to be increased to match market potential.

Recently the State of Texas has imposed increases in the cigarette tax which will now make tax on a pack 26¢ as opposed to 20.5¢. This was part of the largest tax increase in the history of Texas.

With the increases of both the State of Oklahoma and Texas, the wholesale cost for cigarettes are now over \$10 for full priced brands. Therefore, Generics will play an ever increasing role in the cigarette sales mix.

II. COMPETITIVE ACTIVITY

American -- They are continuing to review distribution in sales in their wholesale accounts to reduce unnecessary inventories. For example, they have requested Macs Wholesale to discontinue:

Pall Mall Lt. 100	Tarreyton Lt. KS
Pall Mall Lt. 100 Men.	Carlton 100 Men. Box
Lucky Low Tar Box	Carlton Box King
Lucky Men. 100	Carlton Slim 100
Lucky Men. King	Carlton Slim 100 Men.
	Carlton Tall 120 Men.

They have also sent sell-in samples into Tulsa for Pall Mall King Filters and Pall Mall Red Filter 100's, both products are low tar.

Concerning Malibu, they are continuing to place \$3 coupons on cartons and 30¢ off on packages. Sales are slow but distribution is good in supermarkets. Payment on the value rack for Malibu is \$9 per shelf and the average price of Malibu with a coupon is \$7.75.

Brown & Williamson -- They continue to work Eli Cutter in Tulsa as a test brand. Sales are extremely slow. They are also utilizing outside agencies to distribute Viceroy \$2 off coupons in high volume supermarkets.

They are also continuing to promote Falcon and GPC with \$1 off carton coupons. Running a 20¢ off a pack for Richland and \$2 off carton coupons for Barclay.

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Liggett Myers -- They continue to promote their full price brands with various incentives such as a Jordache cigarette case. Rumor has it they will purchase 22 rows on a carton rack and pay \$69. We are in the process of obtaining hard copy.

Lorillard -- We have noticed that they are placing Newport 25's advertising pieces on their displays but have seen virtually no product on the displays. Are promoting other Newport with \$2 coupons, lighters, etc.

They are distributing multi brand advertising which features value oriented coupons (see attached \$2 coupon with a mail-in for \$6 in coupons).

R. J. Reynolds -- In the State of Oklahoma, beginning July 1, they reduced their Doral on carton coupon from \$1 to 50¢. They are utilizing their 4 wide (Doral) merchandisers to promote Winston, Salem and Camel with \$2 coupons.

They have expanded their test of Camel Filter 100's and Winston Light Box King and 100 to the entire State of Oklahoma.

Attached is a Vantage ad which advertises calling a 1-800 number to get a free test kit.

Enclosed is an article from USA Today that discusses Reynold's new carton rack pilferage device. It is reported that they are paying 4.5 million for this computer device that will keep track of the purchases of cigarettes within certain time periods.

III. TRADE CLASSES

Distributors -- Several distributors have asked us to make 12M cases for Cambridge U.L. 100's because the sales for the product have grown.

Wholesale Grocers -- Fleming - New Generic brand called "Rainbow" made by L&M. Nash-Finch asks that all stores they supply use RJR racks. Randy's in Pampa, Texas was pressured to replace our fixture.

Supermarkets -- Brookshire (83 stores) continues to expand into the super stores. Currently they have 4 in operation with 2 more under construction. They are also converting their carton fixtures to expand by 4' on each side of the fixture allowing 4' for Value brands on one side.

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Box IGA of Tulsa (9 stores) are currently seriously considering pulling the 7-shelf fixtures and going back to 6 shelves because of the size of the 7 shelf fixtures.

Convenience -- Taylor Petroleum continues to expand in Amarillo. They have just purchased 13 Shop-A-Minute stores bringing their total to 86 stores.

The convenience stores in Oklahoma are paying more attention to value brands and coupons. For example, 7-11, Oklahoma City, recently realized the importance of the coupon to their dollar volume and will actively promote Price Value brands and coupons.

Drug -- Eckerd's will actively promote cigarettes, i.e., placing attention with coupons in newspapers using our cartons as a leader (see attached)

Vending -- Due to the increase of State taxes, we are placing strong emphasis in this area. For example, utilizing the Maxi Credit program to obtain additional placements and to provide a service to the Vending community.

Mass Merchandisers -- Recently Target has removed all Price Value products except "Major" from their stores.

Wholesale Clubs -- Sam's Wholesale Club's has opened a new store in Texarkana.

IV. SSM KEY ACCOUNT CONTACTS

Consolidated Wholesale, OKC Contact: Randy Schaeffer

Discussed sales and product movement and especially how Cambridge Full Flavor was doing. Reviewed their operation and it appeared that they had adequate inventory.

PGA Official Contact: Hugh Edgmon

Met with the President and General Chairman of the 1988 PGA, Hugh Edgmon and discussed our involvement for next year and also met with Jerry Metcalf, Chairman of Scrivner Corporate.

Dallas OIC Board Meeting

Met with other fellow Board Directors for the Dallas Chamber of the Opportunities Industrialization Center, Inc. Discussed many aspects, their budget and Philip Morris' proposed involvement in their 20th annual anniversary. The reception will be attended by the Mayor, Annette Straus, Council Members and several other key executives and business leaders in the Dallas community.

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SAM CONTACTS

SAM, Gary Thornton

Winn DixieContact: Don Campbell

Presented Series 2000 carton fixture, pack fixturing, price value fixturing. This was a screening presentation to gain Winn Dixie's feedback on PM fixturing. Mr. Campbell was not receptive to a change at this time although he will allow a test store at some point.

Safeway, OKCContact: Ken Jones

Ken Jones is the DSD Buyer for Safeway. Mary Adamson rejected Cambridge Full Flavor as an in house product. Ken authorized the packings to be supplied through outside suppliers.

Safeway, OKCContact: Wayne Foxworthy

Presented follow-up plan-o-gram on the series 2000 proposal to accomodate Wayne's suggestions from the original presentation. Pending.

7-11, OKCContact: Jim Rooker

This was a follow-up on behalf of the Price Value merchandising proposal. Jim wants to find a way to implement both Cambridge and Doral fixtures. Set-up AV fixture with security shields for District Manager meeting. Decision pending.

SAM, Barbara Lynch

Quik TripContact: Rodney Loyd

Met with Rodney Loyd to become familiar with Quik Trip operations prior to a presentation and to introduce myself.

Affiliated, TulsaContact: Dale Roland

Accompanied AM, Jim Liles on the Cambridge Full Flavor follow-up visit. We obtained lines numbers for the Cambridge Full Flavor and Jim introduced me as the new Philip Morris Account Manager.

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Minyard Food Stores

Contact: Joe Tarver
Ron Prestriedge
Doug Rodden

Visited with buyers Joe Tarver, Ron Prestriedge and Doug Rodden at Minyard's cookout in honor of manufacturers & brokers. I gained insight into Minyard operations and developed rapport with members of the buying committee.

Minyard Food Stores

Contact: Manse Millican

Accompanied SHA, Rick Mitchum to present Cambridge Full Flavor. Manse expressed a concern over the recent delivery problems he has experienced. The public warehouse has not been able to fill his orders on a timely basis and Minyard's was low on stock

V. MERCHANDISING PROGRAMS

Plan A -- We recently got the new materials for the new Plan A and have set specific Plan A objectives. For example, our objective for Plan A on virtually all the stores over 500 cartons, we will start at 100 rows and end up at 105 to 110% of the row gap.

Currently in this Section RJR is installing more of the Flex racks and we are getting our fair share of the racks. For example, currently under Category 1 we have 685 stores with an 82.2 row average. In Category 2 we are sitting at 513 stores and a 71.2 average and accounts falling below 300 cartons we have 189 stores and a 69.7 row average.

C/I -- Nothing new to report.

Plan AV -- Recently AV proposal for Brookshire's was turned down but with the new Plan A we should get more space due to the additions of 4' sections.

Plan B -- Plan B continues to be an excellent vehicle to have our product visible at the point of purchase. We would like to make a suggestion to create a generic 10 pack temporary set-sell in order to utilize the various brands that are removed from the display on a monthly basis. We could simply utilize the header card from the B as the header card for the 10 pack set-sell. Therefore, we would have additional visibility of more than just the month or two that the brand is on the Plan B.

Red Coleman's a 20 store liquor chain in Dallas has upgraded their B-3 to an M-4 Prime.

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BV/BG -- Both's importance are improving as the price value products increase in sales. With more emphasis on pack sales for these particular brands, we are making a greater visibility impact with the BV. Where they are visible and in the near proximity of Doral we are getting more of the Doral's business.

Plan R -- Nothing new to report.

PM CARTON AND PACKAGE FIXTURES -- Our overhead package fixture continues to be an excellent vehicle to gain us visibility and availability. Most recently we bumped RJR's new flexible overhead with our overhead.

Also, 7-11, Mako originally was to split the overhead package fixtures with PM and RJR, now plan to purchase their own fixtures. We are currently trying to get a follow-up appointment to discuss PM's involvement in this.

We continue to place our carton fixtures, especially the Series 2000. Currently to date we have 9 of 2000 racks in our operation.

A Safeway fixture show in Oklahoma City is planned for July 27th where we will exhibit our various carton racks and package racks to the key executives of the Safeway, Oklahoma City division. All information has been forwarded to National Accounts.

VI. SECTION ACTIVITIES

During June our cycling ratio was low due to several factors. 1. We experienced alot of vacation, holiday time, meetings and the placement of various promotional materials and 2. due to the change in the I.C.R. reporting procedures, we experienced numerous errors which had an impact on receiving credit for calls made.

Our call average also dropped to 11.8 and an 8.5 True. We are predicting that July will be a tremendous improvement due to the familiarity of our new reporting procedures.

Section average for coupons utilized was 7.8 for the month of June. Two areas of concern is the majority of coupons are still coming to the DM's home. Also, since we have changed our ordering procedures to order by DM total, the packets are coming thrown together in a box instead of by sales rep. This causes the DM's to spend an inordinate amount of time sorting and distributing the coupons to the sales rep. We strongly suggest that CIP coupons be mailed to the sales reps. This would greatly enhance productivity and reduce wasted time and expense to get the coupons to the sales reps.

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Also, please note that the most recently received on carton coupons (arrived the week of 7-20) have an expiration date of July 31, 1987.

VII. SALES SERVICES

We have been experiencing problems receiving DISOSS correspondence in a timely manner. Many of the memos received in the Section Office are dated several days prior to the time they are sent and received in the Section Office. Much of this correspondence contains due dates on various recaps which allows us very little time to compile the information requested. For example, we received the Marlboro Summer Sampling Program-Handout Card memo on July 16, 1987, which requested that all handout cards be destroyed by the end of the week. The memo was dated July 13, 1987.

We recently received our PC's to be used for creating presentations for the SAM's. This system offers us an excellent opportunity to improve the quality of our presentations and improve the productivity of the office in general. I am looking forward to working with this system and creating various programs that will be beneficial for our accounts.

VIII. SALES DEVELOPMENT

The materials that were received for our most recent new brand meetings were for the most part received on time and were of good quality.

We would, however, like to suggest that since video tapes are created that cover the majority of information and materials that will be utilized in the sell-ins. We would like to see more thought be given on how to use various sell-in presentation tools as opposed to recreating and representing information that is illustrated in the videos. For example, we would like to see overheads or modules created that would take the information provided for the new brand and apply it to various selling tools or techniques.

IX. MEDIA

Of all the billboards that I have reviewed, they are of good quality.

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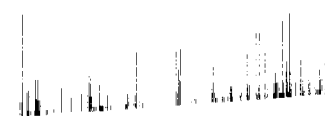
X. ASSOCIATIONS AND CONVENTIONS

Las Cherradas, Marlboro -- For the most part, the rodeo was successful, however, the attendance was less than average. We suggest a larger facility such as the Mesquite Arena be utilized for future functions because it will offer us an opportunity to entertain our customers.

We held a new brand meeting for managers for Virginia Slims Ultra Light and B&H Box. Managers left with an understanding of what is to be done and realized the importance of planning. For example, the DM's in Dallas have created a 4 month master planning schedule that will be utilized in the office and in all warehouses. Therefore, the entire Section 52 sales force will know when the materials are to arrive and should be placed.

TAP/TAN -- To reiterate, state taxes for both Oklahoma and Texas have been increased over the last couple of months. Our efforts and the wholesaler's efforts did very little to combat these taxes simply because the economies of both Texas and Oklahoma are poor and the strain on both State's budgets were intense. For example, Governor Clements of Texas, a strong proponent of no tax increases, had to acquiesce to the legislation to raise taxes. Based on the budgets that have been improved, the tax base should be adequate for the future.

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I. MARKETING CONDITIONSNew BrandCambridge Full Flavor

Sell-in at both headquarter and retail levels continues to be very successful. All distributors with allocation have been sold. Seventy chain accounts have bought with 19 accounts still pending. Major accounts such as N C S, Circle K, H. E. B., Randalls, etc. have accepted the brand.

Movement of Cambridge Lights and Full Flavor through wholesale level has been good for the first few weeks of the sell-in. Area Managers have done an excellent job of forcing out product. Additional lead time for the sell-in would have made it even more successful.

Retail audits have revealed good distribution and inventory levels for both chain and independent accounts. Every effort is being made to increase space for the Cambridge family. Both Cambridge Lights and Full Flavor need additional visibility both outdoor and print media. The new AV and AM contracts will help improve visibility.

Two-for-one program, as usual, has created excellent movement encouraging trial.

I recommend that during future new brand introductions, P.O.S. items, especially posters, be larger in size. On price value brands, areas where price is to be added, should also be made larger. Even though this did improve with the latest items, it should be even larger to compete with competitive P.O.S.

Couponing continues to be very effective on sales and improving inventories.

Sales

Total sales for June were up 1.0%. Marlboro, which accounts for 65% of the total, was up 1.9% . Year-to-date, the Section is still down 4.9%.

A major development occurred this week that will further make it difficult in the state of Texas to improve sales. During the special legislative session, the legislature

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approved a \$5.7 billion tax and fee package. Cigarette taxes were increased from 20.5¢ to 26¢ a pack and general state sales tax from 5.25% to 6%.

It is becoming even more important, given the new taxes on cigarettes and the present economic situation in the state, that value products will become more and more attractive to consumers.

II. MAJOR COMPETITIVE DEVELOPMENTS

American Tobacco Company

Malibu - Sales force is concentrating on this brand. Distribution at wholesale is good; retail distribution is fair, but it is showing very little movement. Coupons for \$3.00 off cartons, 30¢ off packs attached to product.

Instant Coupons:

\$1.00 on Carltons
2.00 on Lucky Strikes

Brown & Williamson

Falcon - All activity seems to be centered around the Falcon introduction. Cartons have \$1.00 coupons attached, packs have 10¢ coupons. Distribution is adequate, movement slow. Brand is being displayed in their old "B" racks which have two plastic trays on a telescoping pole.

Instant Coupons:

\$2.00 on Kools
2.00 on Barclay
2.00 on Richland

Pick up has begun on Barclay Menthol since this packing has been discontinued.

Liggett & Myers

Total - Introducing the generic brand Total. The entire generic brand line is reportedly showing sales declines.

Instant Coupons:

\$2.00 on Eve 120's, Chesterfield, Lark and L & M

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P. Lorillard

True Silver - The new packing seems to be the main thrust of the sales force's activities. The old packing is not being picked up. As old packing is sold, it will be replaced with the newly designed package. To expedite this, various incentives are being attached such as batteries, cassette tapes, etc.

Instant Coupons:

\$2.00 on Newport

R. J. Reynolds

The Winston program designed for 200 stores is continuing. Promotions vary with some stores having two-for-one offers and some stores featuring \$2.00 instant coupons. These offers all have a significant positive affect on Winston sales. Along with these promotions, R. J. Reynolds is creating additional visibility with pump toppers, counter balance signs and Winston metals.

Doral Full Flavor - Introduction has been successful and good distribution and inventory levels have been achieved at retail and wholesale. Instant coupons for \$2.00 off are being attached to cartons in the Waco market. However, in most areas, \$1.00 coupons are being used. It has been reported that retailers refuse to stock the brand if coupons are not available and supplies of coupons have reportedly been depleted.

Magna - This brand is still being worked heavily in the Austin area with two-for-ones and "designer" sunglasses being offered. Sales remain good, especially with the two-for-one offers.

Instant Coupons:

\$2.00 on Winstons and Salems

The new overhead pack merchandisers are not being received well by retailers. As previously reported, the main complaints are that the rack sways on the counter and the dividers in the trays are constantly shifting. We have been asked to replace R. J. Reynolds racks in some cases.

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An outside agency has been employed to distribute \$2.50 coupons on their brands.

Personnel

Rumors continue concerning R. J. Reynolds' reorganization plans. They reportedly will attempt to reduce their sales force by 1300 to 1500 by offering early retirement to those employees who are 50 years old or older with 20 years' experience.

III. TRADE CLASSES

Direct Wholesalers

Direct wholesalers made up 78.6% of total Section sales, down 6.7% year-to-date. Inventories are now leveling out from the increased buying as a result of the last price increase activities.

Tate & Sons, Comanche, Texas

This account was sold to Grocery Supply, Sulphur Springs, Texas. Both the Comanche and Abilene houses were sold. Abilene house will continue to operate as Grocery Supply.

Big Diamond, San Antonio, Texas

This account is down 17.6% year-to-date through 5/31/87. According to the general manager, Johnny Achilles, the decision to close Big Diamond and allow McLane in Temple to take over the distribution process is about 99% sure. Processing of paper work is all that is needed. This should take approximately 30 days.

According to Johnny, he will be placed at the headquarter office, but is awaiting a job description which will be created for him. All other employees will be interviewed and a decision will be made to either place them in store positions or they will be layed off.

Direct Distributors

Direct distributors made up 25.8% of total Section sales, down 12.9% year-to-date and down 12.5% during the second quarter.

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Direct Retailers/Supermarkets

Direct retailers continue to account for 17.9% of total Section sales, down 3.3 year-to-date, but up for the second quarter 2.4%

Kroger, Houston, Texas (104)

An updated Kroger store, geared to the Hispanic community, had its grand opening in San Antonio this month. The decor has been updated to add more color and excitement to the shopping experience. A number of items geared to the Hispanic customer have been added. Some customers have indicated that this new store will probably draw shoppers from all parts of the city, which was the objective of the remodeling and new concept.

H. E. B., San Antonio, Texas (148)

This chain is down 10.7% year-to-date, through 5/31/87. The major contributing factor to this decrease is the move to non-self serve in a majority of their stores. The affect of the expanded non-self serve merchandising cannot be measured by the 10.7% decrease in sales due to H. E. B. acquiring L. L. Harris', (Corpus Christi) business. Actually, the increased move to non-self service cigarette carton merchandising has caused approximately a 33% decrease in sales year-to-date.

H. E. B. has reached an \$8. million settlement with nine of its former employees after they brought suit against them for wrongful termination.

H. E. B. has contracted with North American Industries for 26 of its stores in the San Antonio market for an electronic message center system. H. E. B. and North American Industries are jointly soliciting companies that do business with H. E. B. stores to buy advertising on the electronic message centers. This electronic message center attaches to existing aisle markers. In addition, two single faced systems will be located at checkout lanes. All systems are remote-controlled via telephone lines for instant access to message text.

Advertising rights consist of a non-competitive advertising panel. Advertisers have an exclusive for one year with an option for an additional year.

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The 26 H. E. B. stores involved average 1,612,000 transactions a year. H. E. B. has determined that 80% of buying decisions are made at the point of purchase.

In addition to the single or double sided advertising panel, an electronic message will display every 60 to 120 seconds. The cost is \$75.00 a month per store for a one sided advertising panel with an electronic message every 120 seconds or \$120.00 a month per store for both sides of the advertising panel and an electronic message every 60 seconds.

Unlike our message center whereby store managers can input store specials, this electronic message center is controlled at a central location and is out of the store manager's control.

Convenience/Gas

This trade class accounted for 3.5% of Section business, down 18.1% for the year and was also down for the second quarter, 14.9%.

7-Eleven, San Antonio, Texas

San Antonio retailers are targeting the Hispanic market, hoping new Hispanic customers can create substantial growth for their stores. They are launching a multi-million dollar Spanish language version of its latest media blitz in San Antonio before expanding it nationwide. This campaign is the Spanish version of its recent advertising effort to become the preferred store for milk, eggs, carton cigarettes and beer and soft drinks.

Gulf APSI, Houston, Texas (120)

This chain has recently picked up five new locations in Corpus Christi. Details have been coordinated with buyer, Bob Napolillo, and Division Managers Gary Lynch and Carney Fuentes to place Philip Morris overheads and M-4 displays in all five stores.

7-11, Houston, Texas (482)

News that Southland is going private could have a positive affect in that it would open up policy on taking more promotional items. Buyer, Art Molliver, has not authorized Cambridge Full Flavor yet. We anticipate he will at our

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next meeting. It is apparent that this division has need for cash. Art has asked to see our value center and wanted to know what we are paying. Contracts were changing at that time and Steve did not quote a price although he assumed our old payments. Art says he wants to push the generic category with value centers in his stores. This could be a move for increased merchandising payments. However, he is also talking with R. J. Reynolds as well, as they had even proposed prototyping a unit in line with his sales counters. R. J. Reynolds would jump at the chance to get this account since they have no merchandising presence. It appears that 7-11 is going to maintain their aggressive pricing in Houston and, according to Art, possibly start promoting the generic category with outdoor materials, i.e. billboards.

Direct Drug Stores

Drug stores account for .8% of total Section business, down 22% year-to-date and down 17.9 for the second quarter.

Direct Vendors

Direct vendors accounted for only .4% of the Section's business, down 4.7 for the year but up for the second quarter 6.7%.

Mass Merchandisers

Wal-Mart, Bentonville, Arkansas

Ground was broken on the Wal-Mart distribution center for the San Antonio market. The 984,000 square foot center will employ more than 650 people when it reaches capacity.

William R. Fields, a Wal-Mart Senior Vice President for Distribution and Transportation, said five stores are planned for San Antonio, most of which would be located near I H 410.

Government

This trade class accounts for 3.2 of Section's total business for the year, down 5.7% but was up for the second quarter 1.5%.

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SECTION SALES MANAGER KEY ACCOUNT CONTACTS

<u>Account</u>	<u>Contact</u>
Brookshire Bros. Lufkin, Texas	Ed Parrish, V. P. Buying Buddy Colmer, Merchandiser

Steve and I presented Series 2000 and the Electronic Message Center to Buddy Colmer, Vice President. Buddy's reaction was favorable in regard to the Message Center, but mixed when it came to Series 2000. They have recently converted all stores to Reynolds flex fixtures. There are two sets: 17 and 19 foot departments, including rows on the Value Department. We have 101 and 118 rows respectively. These new departments affect 48 of the 53 stores in the chain. The contract is area of choice at this point. Steve has also made a presentation for space on the third shelf to comply with new Region policy. He thinks at the very least we will have 100+ row average in this account and maintain third shelf as our primary shelf position. We are planning to re-present Series 2000 pending an appointment, showing us with more rows and greatly increased payment. With our initial presentation, we could only beat 17' R. J. Reynolds' department by \$30.00 a month, including applicable bonuses. We could not beat the 19' flex payment at all. With the new proposal (100 plus), we hope to at least gain test stores.

Cambridge Full Flavor has not been accepted at this point. In speaking with Vice President Ed Parrish, he indicated the buying committee has not made a decision on this brand as well as several of the latest entries in the value category, i.e. Malibu, Falcon. In Ed's words, "We are going to wait and see what happens". It appears the decisions are not whether or not to add new brands, but the lack of slots in the warehouse and what to about this. We will continue to follow-up on presenting Cambridge Full Flavor.

Safeway Stores Houston, Texas	Dean Gantt, Div. Mgr. Ron Kieltyka, Buyer/Mdsr.
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Safeway has gone to great lengths to assure the vendors who call on them that they are in Houston to stay. They have closed 19 stores in the last two months and are down to 99. Division Manager Dean Gantt said they will not close any more stores, and that these 99 stores will be the number they will go with. Dean Gantt also mentioned that Safeway Corporate had no intention of selling them and had, in fact, turned down a \$100. million offer from outside investors.

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At the Vendor Appreciation Day outing, Safeway division executives made it clear they wanted sales and the deals to get those sales. However, it also appears that the money is extremely tight.

Circle K
Houston, Texas

Bob Austin, Reg. Mdse. Mgr.

S.A.M. Steve Wilkinson and I are waiting for line drawings of self service spring loaded single pack merchandisers. Regional Merchandising Manager Bob Austin is extremely interested in a self service pack program. According to Bob Austin, R. J. Reynolds has already built a prototype. However, it was not what he wanted. National Accounts is also working with Corporate Headquarters on the same issue. Apparently, National Accounts will show Corporate Circle K drawings before the divisions to have them. In our last meeting, Bob Austin brought up the issue of payment. He mentioned that he expected over \$90. a month for these merchandisers. For this payment, the underwriting company could put whatever type display they want or really merchandise the top of the display as they want. Bob wants a capacity of 150+ packs that would accommodate all authorized packings of all companies. This payment surfaced at our last meeting and, according to Bob, may or may not affect current single pack displays on the counter. We don't think he has the power to affect counter display programs. It is not clear if he is in charge or if Circle K, Phoenix, is in charge.

Circle K has accepted Cambridge Full Flavor and will be making a 10-carton force out. They have authorized two-for-one displays in all stores.

N C S
Houston, Texas

Chick Ailling, Mdse. Mgr.
Craig Calton, Vice Pres.
Chuck Vires, Buyer
Scott Hiller, Merchandiser

N C S continues to undergo organizational changes in the way they are doing things. They are becoming more centralized and trying to exert more control over its operation from the Houston base. In the past several months, they have brought in Craig Calton, Vice President of Marketing. Chic Ailling remains as the Merchandising Manager for the company. N C S brought in a new cigarette buyer, Chuck Vires, who was a Division Manager in Atlanta.

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During our initial meeting, Chuck accepted Cambridge Full Flavor and authorized the two-for-one displays for all stores. In addition, he was happy to take another Marlboro lighter display for September in the Houston and San Antonio stores. We had been shipped an over supply which allowed us to make the offer.

Apparently they are moving Chuck to buying soft drinks and until they find someone to fill the job on a permanent basis, Chic Ailling will be handling the cigarette buying. The reorganization is giving the corporate buyers fewer buying categories.

A dinner meeting was set up with National Accounts (Ed McQuigg, Les Olson and Bill Garry) and me and four principals of N C S where we discussed the profitability of the cigarette category for N C S and Philip Morris. We also discussed merchandising opportunities to include both packs and cartons. All principals expressed a desire to improve pack sales through pack promotions. A list was finally provided to Bill Garry for those stores having the Philip Morris self service pack fixtures. A follow-up is planned for August to finalize a pack promotion program. We will also discuss our training film for book orders and inventory control at that time. Very productive meeting.

V. MERCHANDISING PROGRAMS

Overall consensus is that the new Plan A will simplify old contracts by eliminating small, standard and extended fixtures. Division Managers have discussed with all Sales Representatives the critical importance of double checking store volumes to better evaluate row gap. Objectives for row gains all include additional rows for our recent six new packings.

Section 53's management team feels the new Plan A contract will also aid in gaining additional rows and also eliminate the area of choice at no risk of losing contracts. Accounts have appeared to be very receptive to our initial proposals.

Section management also feels the new Plan AM will help make a major impact on closing the Section's row gap.

Plan A-1

Marlboro Sports Bag

Excellent promotion. Retailer and consumer response has been extremely good. We expect to utilize all displays.

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Plan B

Because of the limited time to get Cambridge Full Flavor authorized in some chains, the new brand was in the primary position less than two weeks. I suggest Cambridge Full Flavor should be kept in the primary position for August.

M.I.S.T.

As discussed in other reports, I think the M.I.S.T. program has been successful in achieving its initial objective of building inventories, eliminating out of stocks, closing distribution gaps and creating visibility for the Marlboro family. The following are some of those numerical results:

M.I.S.T.

Distribution Gaps Closed	2,019
Out of Stocks Corrected	6,622
Total Cartons Sold	257,579
Pre-booked	84,104
Book Orders	107,696
Cash	65,779
Total Displays Placed	32,133
Permanent P.O.S. Placed	11,888
Temporary P.O.S. Placed	47,028
C.I.P.s Used	35,506
Total Marlboro Rows Gained on Carton Racks	11,511

Vending Programs

Number of Accounts on Plan D	109
Number of Machines	13,484
Number of Accounts on DataVend	49
Number of Machines	4,295
Ride With Placements to Date	270
R. D. A. Placements to Date	0

Philip Morris FixturingOverheads

Placements continue to increase, especially modular racks and overheads. The availability of the 6' Maxi and 6' and

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8' Low Profile overheads will, no doubt, give us added flexibility and open new placement opportunities.

Units continue to be in adequate supply and response time from region warehouse remains good. It is reported that twelve of R. J. Reynolds new fixtures have already been replaced after only being up a few weeks.

Series 2000

All of the elements of the new system are reported to be good. Commitments have been received for six placements. Three are already on location.

One improvement is recommended immediately. We need to improve the quality of the security shields. The security shields on the larger units, 5' and 6', are too fragile and flexible. The Plexiglas separates from its frame. The locking devise must be opened with a tool because it is too hard to slide.

Marlboro Sampling Program

This program is well on its way and reported to be achieving its objective. Sample mix should include a larger percent of Marlboro Menthol.

VI. SECTION ACTIVITIES

Both Sales Representatives (retail) and managers (headquarter) are placing all of their efforts on primarily four major programs: Cambridge Full Flavor, two packs with lighter, Marlboro sports bag and the entire new Plan A. Good progress is being made toward achieving all objectives. One critical area and one that is being emphasized is prioritizing and planning. We will continue follow-up in this area.

P.O.S.

Permanent

Placements have continually and steadily grown this year. However, with numbers of items no longer being tracked, this stands to change. We will closely monitor our penetration in accounts to insure visibility is maintained.

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Marlboro Sampling Program

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Juneteenth, Houston, Texas

Philip Morris U.S.A. was well represented at this year's annual Juneteenth celebration held at the Julio C. Hester House, 2100 Solo Street, Houston, Texas. There were between 600 and 800 attendees. The agenda of this function consisted of keynote speakers, music and plenty of food. Smokers were sampled with the Benson & Hedges family.

Again this year's Juneteenth celebration was held in various parts of the city with an overall attendance of 150,000 to 200,000.

There is a need for Philip Morris to become more involved in this highly publicized event. We should have increased sample allocations, more manpower and various incentives to improve our participation in this program.

Juneteenth, Austin, Texas

Sales Representative Mike Tristan placed banners and utilized 5000 B & H samples at this event. This was done in conjunction with Miller Beer at their booth.

San Antonio Police Association - 6th Annual Picnic and Barbeque

Retail Merchandiser Carlos Merla and ARM Arthur Zamarripa along with Marlboro sampler utilized 2500 Marlboro samples and numerous incentive items at this event. Approximately 5,000 people attended.

Marlboro Spanish American League

Ed Zamarripa attended the Marlboro Spanish American League game July 5th in San Antonio. We received good visibility during games from banners and announcements over the P. A. system. Flyers that were posted over town mentioned Marlboro sponsorship.

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VII. SALES SERVICESSystems

Sales Representatives are getting a better grasp on the new ICR's and error rates should show significant declines. With new call books in hand, they can more easily identify missing and incorrect data. Current call books show effective date of 6/22/87 which means the last week of June sales cycle's ICR's were not processed and inaccurately reflects inflated missing data.

Edit reports for the first week of July are in error. Marlboro Sports Bag and Cambridge two-for-one promo codes are not being accepted and charging Sales Representatives with an error. This has artificially inflated our error rate.

Division Managers are requesting more specific instruction books for ICR's and corrections on some information; i.e. verified this call block is to be marked unless we update information in this area. If we have updated information, the instructions say not to mark verified this call. However, this shows up as asterisks in the call book.

ICR - We are receiving all kinds of reporting instruction updates and revisions in letter form. This is confusing. It is recommended that an entire new reporting instruction sheet be sent out for updated reference.

Fleet

Section 53 is now 100% converted to vans. Several of our long standing orders have been received in the field. In some cases, they have been shipped prior to automatic lock system being installed. This has caused us to make appointments for these vehicles for installation of this system causing down time.

There are several security systems in need of repair. Repairs have to be made by the company that warrants the system which is not practical.

There is a common problem with large vans and their racking system. The support which attaches to the top corner to hold the entire system in place is rapidly breaking away. At the spot that anchors the corner of the rack to the van wall, fatigue is very quick because it is anchored in

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plastic. This is easily corrected by use of a brace welded from the metal rod running the back side of the rack system and spot-welded to the side of the rack to hold it firmly against the van wall.

Materials Distribution

Electronic Message Center - We have sold four at this time with installations scheduled for 7/28/87. The EMS video and New York office instructions said expert installation and programming instructions would be provided. Two days prior to installation, we were told that no one would be down - just read the book and play with it, it is easy. We would have liked some instructions at least on the first unit.

Office Administration

The local pay system is behind at this time. We are going to issue our three office staff personnel 24 hours of overtime which we hope will get us caught up.

VIII. SALES DEVELOPMENT

The new computer, laserjet printer and plotter arrived in the Section office the week of 7/20/87. MPA Joe Reed promptly installed all the hardware and it is now ready for use once he returns from the S.A.M. Knowledge Workshop on 7/27/87. We should be operational the first week in August.

New call summaries are being well received for the most part. Areas that might assist Division Managers would include:

Added space by call numbers on which to write store name.

Added space for promotional dollars spent. We currently have so many programs we are paying for that we do not have enough blanks to account for each one.

IX. MEDIA

Outdoor - No Cambridge support. We are four weeks into the retail introduction and no media support at all. This includes newspaper and magazines also. If we want success on this introduction, media support is necessary.

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X. ASSOCIATIONS AND CONVENTIONSA.M.O.T. (Amusement & Music Operators of Texas, San Antonio

This organization conducted their annual 1987 convention on July 23 - 25 at the St. Anthony Hotel in San Antonio, Texas. Vancie Todaro of TAVS Vending in Bryan was this year's committee chairperson. We helped support this year's convention with the purchase of a full page Marlboro ad in the convention program. We also provided sample 6's for the general membership

LULAC National Convention, Corpus Christi, Texas

This year's convention was held in Corpus Christi, Texas, (June 24 - 28) for the first time in 20 years. Corpus Christi is the birth place of the LULAC organization. The 58th Annual National Convention has grown to become the most successful LULAC National convention to date.

This year it had a vast corporate and governmental support unprecedented in LULAC history. The theme for this year's convention was "The Path to Progress". Philip Morris, Miller Brewing and General Foods sponsored one of the luncheons and also booth participation (sampling). The turnout was successful and over 800 attended the luncheon. Guest speakers were presidential candidates Jack Kemp and Michael Dukakis.

Philip Morris, Inc. contributed \$10,000. to the LULAC organization.

National Urban League Conference, July 19-22, Houston, Texas

As stated by several conference leaders, this was one of the most successful conferences in the 70 year history of the League. Philip Morris Corporation participated with booth sponsorship and also participated in the new program being coordinated by George Powell and Dr. Fred Black which is called "Community Express".

In a joint effort between General Electric and Philip Morris, the Community Express program was able to bring the purpose and meaning of the National Urban League which had for its theme this year "Working Together to Make a Difference" to those people who otherwise would not have been able to attend the conference.

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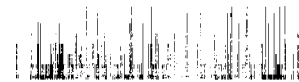
The program consisted of collecting give-away items from other participating exhibiting corporations at the conference and through working with two inter-city churches, items collected were distributed to those needing them. Companies participating:

Anheuser Busch	Sunshine Biscuits
Coca-Cola U.S.A.	General Foods
Cheseborough-Ponds	Carnation
Johnson & Johnson	Avon
Kentucky Fried Chicken	Xerox
McDonalds	Warner Lambert
Pepsico Inc./Frito Lay	R. J. R. Nabisco
Time, Inc.	General Electric
Miller	Kellogg

This program was very well received by both the receivers and the givers. I recommend that, if possible, it should be extended to other type conventions or associations.

R. J. R. Nabisco, Inc. sponsored the National Urban League Annual Conference dinner.

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